City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 16, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: BUDGET MEMO # 5 : STANDARD & POOR'S ANNUAL REVIEWS OF AAA RATED CITIES AND COUNTIES

Each year the bond rating department of Standard & Poor's (S&P) undertakes, and then publishes, two analyses of various credit characteristics of the 41 cities and 31 counties that it rates AAA (most of these jurisdictions are rated Aaa by Moody's Investors Service but some are rated less than Aaa). These S&P analyses, which are attached (one report reports on cities and one on counties), look at the following key factors that S&P uses in assigning ratings:

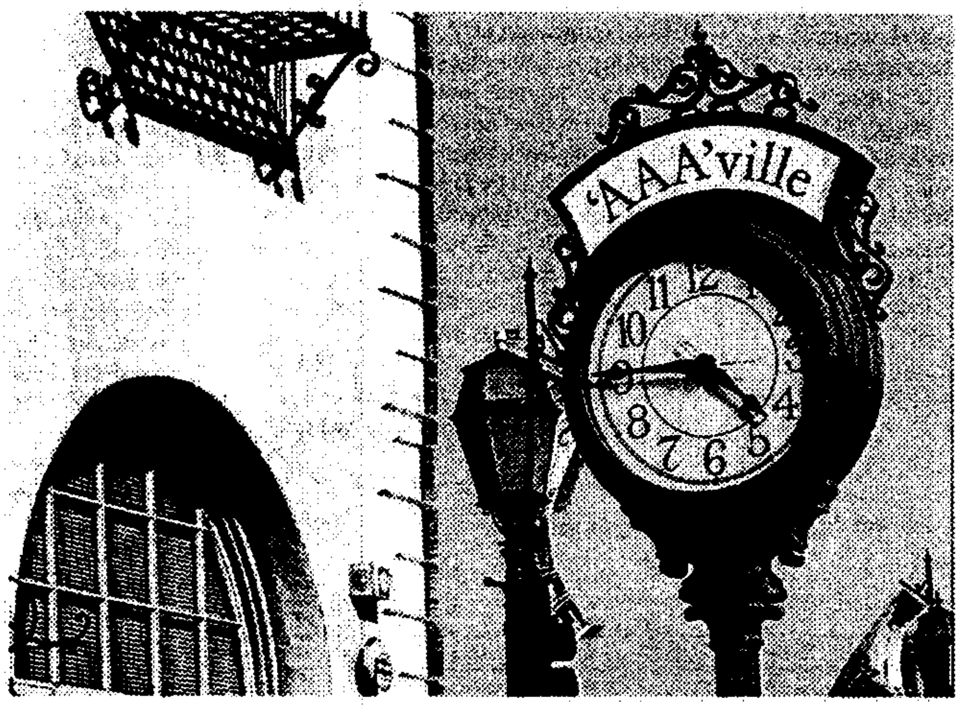
- Strong and proactive administrations
- Effective debt management with moderate to low debt
- A vibrant and diverse economy or participation in one, and
- Strong finances

These factors have both qualitative and quantitative data elements, and include the calculation of debt ratios and other fiscal measures. As the report for cities indicates (pages 12 - 13 of Attachment I), Alexandria's overall debt level and debt service compares very favorably to other cities rated AAA by S&P. A similar conclusion can be reached when comparing Alexandria to AAA rated counties, including in this region the counties of Fairfax, Arlington and Montgomery (see page 11 of Attachment II).

For example, for the measurement of *debt to market value of the real estate tax base* ratio, Alexandria's debt to tax base ratio of 0.9% (at the end of FY 2000 immediately after our June 2000 bond issue of $55 million) was lower or equal to 38 of the 41 cities and 29 of the 31 counties. It should be noted that the proposed FY 2002-2007 CIP, with its proposed bonding levels of $93 million over the next six years, would keep this important ratio at less than 1% over the entire six year period. This would also be lower than the City Council's adopted financial policy target of 1.1% and the financial policy limit of 1.6%

In various other measures, such as debt service as a percent of expenditures, debt per capita, fund balance, real estate market value per capita, effective buying power and unemployment rate, the City also compares favorably. Using a datapoint prior to the last City bond sale in June 2000, the report also notes Alexandria's rapidity of debt retirement. Since then, with the June 2000 bond sale the rapidity of City debt repayment has changed to 58%, which is considered a healthy payback rate.

Attachments: I. Annual Review of 'AAA' Rated Municipalities
II. Annual Review of 'AAA' Rated Counties



Annual Review of 'AAA' Rated Municipalities

Since Standard & Poor's January 2000 review of 'AAA' rated communities, eight municipalities earned Standard & Poor's highest rating—the most in any single year.

Karl Jacob, Boston 617-371-0306, **Geoffrey Buswick**, Boston 617-371-0313

Now, 41 municipalities hold this highest rating. Last year's entrants include six upgrades (Bloomington, Minn.; Boca Raton, Fla.; Norwalk, Conn.; Plano, Texas, Roswell, Ga. and Sudbury, Mass.) and two new 'AAA's from municipalities issuing rated G.O. debt for the first time (Greenwich, Conn., and Northbrook Village, Ill.). The recent additions highlight factors contributing to municipalities earning 'AAA' ratings:

- Proactive management;
- Low to moderate debt levels;
- Economies that have outperformed the region in recessions and expansions;
- Typically higher wealth levels; and
- Strong financial positions that provide a safety net protecting against virtually all uncertainties.

This article reviews some of the key factors leading to a 'AAA' rating.

Behind the Ratings

Close examination of 'AAA' rated communities' ratios shows that size does not matter, nor does geographic location. Dallas has more than one million residents; Bloomfield Hills, Mich., has fewer than 5,000 residents. However, both share important attributes, such as low unemployment rates and above-average wealth levels. Grouping the municipalities by size and region reveals other shared characteristics (*see sidebar for an explanation of methodology*). For instance, per capita market values and wealth levels tend to be higher in the Northeast than in the Midwest. The fact that these two statistics move in tandem indicates a direct link between the wealth of a community and property values (*see Chart 1*). Segmentation illustrates how key ratios are considered on a sliding scale. Even though large cities generally have lower wealth levels, it is not impossible for them to achieve the highest rating category.

Standard & Poor's emphasizes four factors when assigning a 'AAA' rating to a municipality:

- Strong and proactive administrations;
- Effective debt management with moderate to low debt;
- A vibrant and diverse economy or participation in one; and
- Strong finances.

These factors combine both qualitative and quantitative factors.

Qualitative data include:

- The presence of an experienced management team with a history of conservative budgeting and successful management through all economic cycles;
- The scope and extent of financial responsibility for municipal services shared with other levels of government; and
- The extent to which a municipality can draw on alternative sources to finance operations.

Quantitative factors, on the other hand, provide the numbers and ratios helpful to financial analysis. These reveal:

Chart 1

Per Capita Average by Region and Size

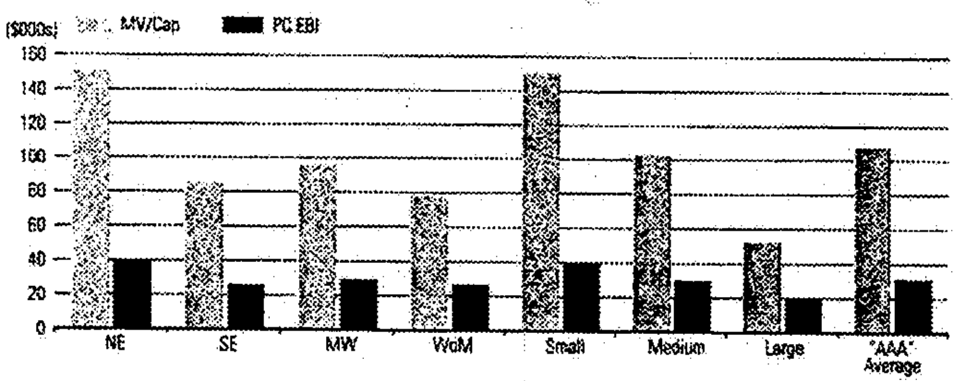


Table 1

Ratio Averages by Size and Region*

	Population	OND/ MV (%)	Debt service/ expend (%)	Unres gen. fund bal/expend (%)	10-yr. amort (%)	MV/ Cap ($)	PC EBI ($)	PC EBI of US (%)	OND/per capita
Average by region									
NE	47,116	1.4	7.1	10.7	72.4	151,596	39,148	220	1,718
SE	147,871	2.2	9.9	32.3	68.3	85,613	26,070	146	1,797
MW	264,747	3.6	15.3	39.2	61.7	95,908	29,311	165	2,498
WoM	298,447	3.1	10.6	25.3	67.8	78,399	26,457	149	2,322
Average by size									
Small	25,178	1.8	8.2	25.7	76.5	150,852	39,225	220	2,331
Medium	116,863	2.3	9.3	26.8	67.7	102,840	29,852	168	1,912
Large	575,692	3.7	16.6	19.8	59.6	52,656	20,087	113	1,773
2001 average	168,365	2.4	10.2	25.3	68.8	108,266	30,928	174	2,011

*See sidebar "Explanation of Column Headings"

- The ability to repay principal and interest (but not willingness to pay, which is a qualitative factor);
- An idea of the sufficiency of reserves, and
- The strength of the economy and other important information.

Together, the qualitative and quantitative factors provide insight into a community's ability to support its debt.

Administration

One of the most important factors in rating a community is its financial management team. A team must have strong, interactive relations with elected officials, favorable budgeting results, and a proven track record of managing through good as well as bad times. The management team must also have a strong grasp of its finances and an explicit plan for future capital outlays and development. Conservative and accurate budgeting is another important attribute of 'AAA' rated communities. 'AAA' rated communities' management demonstrate the ability to manage resources, recognize potential revenue and or expenditure ressures, and react during the fiscal year to ensure maintenance of financial position.

Debt

'AAA' rated communities carry affordable and easily manageable debt ratios. The average net debt per capita for the 41 'AAA' rated communities is $2,000. Six of the small municipalities exceed $3,000 debt per capita. As a result of these smaller communities incurring higher debt per capita ratios, the 'AAA' average debt per capita has grown in recent years. Compared to two years ago, however, the median debt per capita for all 'AAA's has remained about the same at about $1,700.

Smaller municipalities generally provide fewer services or services on a smaller scale that require less debt financing than larger communities. That Standard & Poor's assigns 'AAA' ratings to seven municipalities with populations greater than 250,000 illustrates that issuers are not penalized by their size or for providing those extra services, assuming the services fit within the budget. High debt-per-capita levels can also be offset by other factors. Germantown, Tenn.'s debt-per-capita level is high, at $3,056, but its wealth level is well above the national average, at 196%. At 53.7%, the town's ratio of unreserved general fund balance to expenditures is also very strong.

The 'AAA' municipalities have low debt-to-market value averages of 2.4%, and aggressively pay off approximately 70% of their long-term debt within 10 years. Eighty-eight percent of Alexandria Va.'s outstanding debt is retired in 10 years, and it also has low debt-to-valuation and debt service-to-expenses ratios of 0.9% and

Explanation of Column Headings

Although all municipalities are arranged in the same table, direct comparison is problematic because not all municipalities provide the same services. For example, some support school systems, others do not. Thus, ratios, by themselves, do not address the subtleties and diversities of the municipalities.

Population: The number of residents in the community or county. Source: Bureau of the Census.

Total market value: the value of the municipality's taxable property. Source: official statements of the municipalities.

MV/capita: total market value divided by population.

Percentage AV top 10: the percentage of a municipality's total assessed value associated with its 10 leading taxpayers. This number is a measurement of the degree to which a municipality's tax base is concentrated in a few taxpayers. Source: official statements of the municipalities.

PC EBI: per capita effective buying income. an indication of the incomes of a municipality's residents calculated by subtracting personal tax and non-tax payments from money income. Source: Market Statistics.

PC EBI percentage of U.S.: PC EBI of the municipality as a ratio of the nation's PC EBI. Source: Market Statistics.

Three-year unemployment: the average unemployment rates from 1995-1997, and an indication of the economic strength. Source: U.S. Bureau of Labor Statistics.

OND/Capita: overall net debt per capita. This number generally includes underlying and overlapping debt, and indicates how heavy the debt burden is for residents. Source: official statements of municipalities.

OND/MV: overall net debt to market value. A ratio of the dollar value of debt to the value of the underlying tax base. This number provides insight into how heavy the debt burden is on taxable property. Source: official statements of municipalities.

Debt service/expenditures: a representation of the dollar amount of debt service paid by debt supporting funds as a percentage of the total budgets for these debt supporting funds. Included are the general fund, and, if present, debt service and special revenue funds. Self-supporting enterprise funds are excluded. Source: audits of respective municipalities.

Total general fund balance/expenditures: the annual dollar amount of reserves the municipality has in its general fund as a percentage of general fund expenditures at the end of the fiscal year. A high level suggests the municipality has a better ability to absorb an unforeseen expenditure or a drop in revenues without risking insolvency. Source: audits of the municipalities.

Unreserved general fund balance/expenditures: similar to total general fund balance, but more restrictive because only those funds not reserved for some specific purpose are included. Source: audits of the municipalities.

Ten-year amortization: the percentage of total direct debt the municipality retires in 10 years. Source: official statements of municipalities.

Karl Jacob 617-371-0306

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3.4%, respectively. While such aggressive debt retirement schedules can increase fixed costs by accelerating repayment faster than need be, 'AAA' municipalities exhibit the economic strength and financial capability to support the rapid amortization. On average, 10% of the 'AAA' rated communities' general fund and debt service budgets, where existing, are dedicated to debt service.

Economy

A municipality does not necessarily have to have its own dynamic economy in order to achieve a high-grade rating. Predominantly residential communities such as Massachusetts' Sudbury and Wellesley benefit from their close proximity to the technology-intensive Route 128 corridor, the rapidly growing Route 495 commercial sector, and participation in the strong and diverse Boston economy—the region's financial, health care, and service hub. The larger 'AAA' municipalities tend to support their own diverse economies. Dallas is home to the second busiest international airport in the country, as well as major corporate headquarters. Other 'AAA' rated municipalities that play host to corporate headquarters include Stamford, Conn., and Raleigh-Durham, N.C. The diversity of these economies provides the assurance that they will be able to weather a downturn in any one sector.

Some of the key ratios demonstrating a municipality's economic health include unemployment, the market value and trend of property valuations, and the relative wealth levels measured by effective buying income. High per capita property valuation represents a significant investment in property. In economic downturns, higher-valued properties typically retain valuation. Summit, N.J., has a high debt-per-capita level of $3,911, but a per capita market value of $168,375. The average per capita market value for all 'AAA' rated communities is $108,266.

There are some differences among the municipalities depending on population and location *(see Table 1)*. Larger cities (those with more than 250,000 residents) have average per capita values of about $50,000; smaller communities (those with less than 50,000 people) show average per capita

Chart 2

Relationship Between Wealth and Market Value by Size

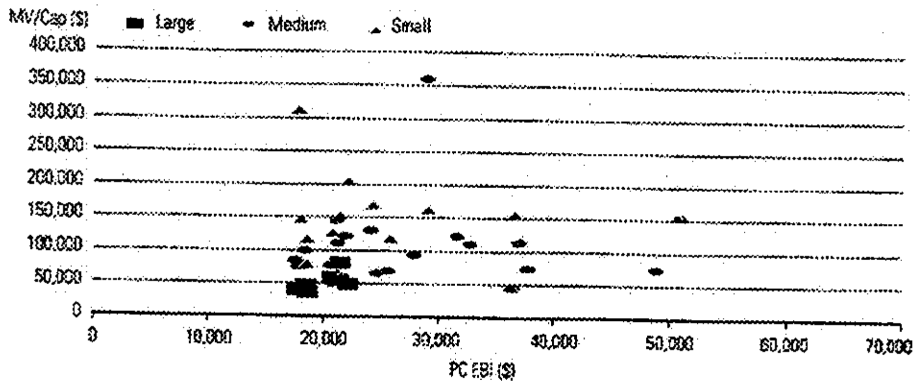


Table 2

Debt Comparison of 'AAA' Rated Municipalities

Municipality	Overall net debt/mv (%)	Debt service/ expend (%)	OND/per capita	10-yr amort (%)
Alexandria, VA	0.9	3.4	942	88
Avon, CT	1.6	9.5	1,583	78
Bloomfield Hills, MI	1.4	10.0	4,457	N/A
Bloomington, MN	2.9	21.3	2,430	N/A
Boca Raton, FL	0.9	14.4	1,311	N/A
Cambridge, MA	2.2	5.0	2,159	54
Charlotte, NC	2.7	19.0	2,251	54
Charlottesville, VA	1.4	4.1	937	74
Columbus, OH	5.3	17.0	2,109	51
Coral Gables, FL	3.0	4.1	3,537	70
Dallas, TX	2.5	15.1	1,396	80
Durham, NC	4.1	7.4	1,892	65
Fairfield, CT	0.9	5.5	1,109	64
Greensboro, NC	1.9	10.8	1,417	57
Germantown, TN	3.9	19.1	3,056	60
Greenwich, CT	0.1	3.6	437	84
Indianapolis, IN	3.8	17.9	1,376	35
Irving, TX	5.9	11.7	4,014	64
Lincoln, NE	1.6	7.1	684	74
Lower Merion, PA	2.5	12.2	3,261	55
Millburn, NJ	0.2	4.4	403	85
Minneapolis, MN	6.6	26.1	2,680	52
Naperville, IL	3.2	14.4	2,041	68

Chart 3

Relationship Between Wealth and Market Value by Region

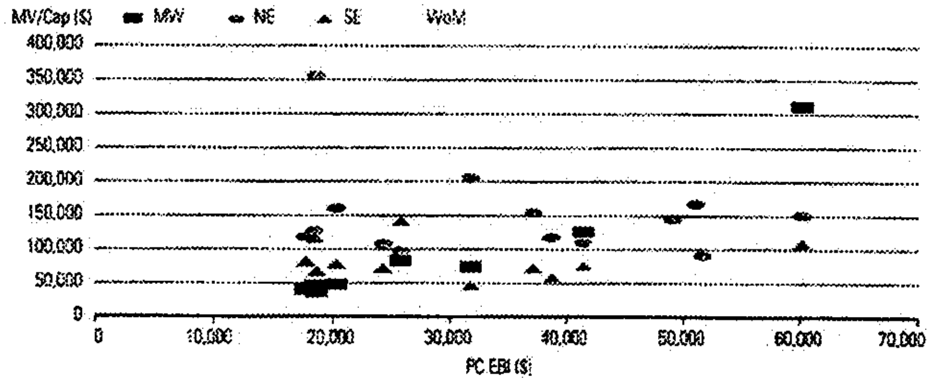


Table 2

Debt Comparison of 'AAA' Rated Municipalities *(cont.)*

Municipality	Overall net debt/mv (%)	Debt service/ expend (%)	OND/per capita	10-yr amort (%)
Northbrook, IL	3.0	10.0	3,774	87
Norwalk, CT	1.8	7.6	1,604	79
Omaha, NE	2.8	15.0	1,396	74
Overland Park, KS	3.2	8.3	2,489	82
Palo Alto, CA	2.2	3.4	3,245	53
Plano, TX	4.1	21.3	2,852	65
Raleigh, NC	2.1	6.5	1,217	71
Ridgefield, CT	1.5	5.2	2,379	69
Ridgewood Village, NJ	0.8	4.8	1,023	92
Rochester, MN	2.3	6.0	1,114	77
Roswell, GA	2.3	12.6	1,650	N/A
Santa Monica, CA	2.3	2.7	2,710	50
Stamford, CT	1.6	7.1	1,708	52
Sudbury, MA	1.6	9.1	2,491	63
Summit, NJ	2.3	12.0	3,911	75
Wellesley, MA	0.6	6.4	422	88
West Hartford, CT	1.7	7.4	1,561	75
Winston-Salem, NC	2.3	11.4	1,637	78
2001 average	2.4	10.2	2,011	68.8
Median	2.3	9.1	1,708	70.0
1998 average	2.5	10.9	1,743	68.2

Most recent data. N/A—Not applicable.

values of $150,000. This dramatic difference can best be explained by the relative homogeneity of smaller communities. Larger municipalities, by contrast, contain a mix of wealthy and poorer areas that tend to moderate per capita values. For instance, Avon, Conn., with a per capita market value of $151,856, is a wealthy residential suburb of Hartford. In contrast, Indianapolis, Ind., is a diverse city with a per capita market value of $36,341. Northeast municipalities have higher per capita valuations reflecting the generally higher housing values in Pennsylvania, New Jersey, Connecticut, and Massachusetts, as well as higher incomes. The relationship between per capita effective buying income and market value per capita indicates that higher incomes are associated with higher property values (*see Chart 2*).

Additionally, most 'AAA' municipalities share strong employment and income figures, which can offset other areas of weakness. Charlottesville, Va., has an unemployment rate well below the national average, which helps offset a per capita wealth level that is 93% of the U.S. average. The presence of the University of Virginia also assures Charlottesville of relatively strong employment in economic expansions as well as contractions. In our analysis, Standard & Poor's uses the three-year average unemployment figure, which tends to smooth one-year aberrations and provides a better indication of an economy's health.

The low wealth levels of Charlottesville and Columbus, Ohio, are also offset by the presence of large and well-regarded state universities. While the large student population depresses wealth levels, the intellectual capital helps create jobs and a dynamic economy. Just as the large university presence in the areas of Palo Alto, Calif. (Stanford), and Cambridge, Mass. (Harvard and MIT), help generate new businesses and jobs in those areas, Charlottesville (University of Virginia) and Columbus (Ohio State University) reap the benefits of significant university presence. Raleigh and Durham have higher-than-average wealth levels, but also benefit from the presence of Duke, Wake Forest, and the University of North Carolina. These three prestigious universities form an important base for the

"Research Triangle" and a fast growing regional economy with high-paying jobs.

Finances

The fourth important factor is a municipality's finances, which are closely tied to the strength of the management team and the tax base's ability to generate revenue. Strong financial management with the ability to accurately plan and develop significant reserves is a common characteristic of highly rated municipalities. The average unreserved general fund balance as a percentage of the budget for all 'AAA' rated municipalities is very strong, at 25%. This financial cushion gives local governments great flexibility in dealing with unforeseen events such as an unexpected shortfall in revenues or rise in expenses. At the top of the list is Roswell, Ga., a suburb of Atlanta, with an unreserved general fund balance of 109%.

Conclusion

The ratios of 'AAA' municipalities do not represent an exhaustive list of considerations in the rating process. They do, however, represent some of the most important characteristics contributing to the coveted 'AAA' rating:

- Strong administration,
- Manageable debt levels,
- Strong economies, and
- Financial flexibility.

Table 3

Wealth Comparison of 'AAA' Rated Municipalities

Municipality	Population	Total market value ($000)	Total gen. fund bal/expend (%)	Unres gen. fund bal/expend (%)	Mv/cap ($)	Pc EBI ($)	Pc EBI of us (%)	3-yr unemployment (%)
Alexandria, VA	121,700	13,295,308	33.0	29.5	109,247	29,116	164	2.2
Avon, CT	14,093	2,125,994	9.7	7.8	151,856	38,770	218	1.7
Bloomfield Hills, MI	4,363	1,358,704	41.4	40.3	311,644	60,191	338	2.4
Bloomington, MN	88,375	7,356,598	37.2	36.5	83,243	25,828	145	1.7¶
Boca Raton, FL	71,761	10,202,497	23.2	21.4	142,173	36,678	206	3.5
Cambridge, MA	100,469	9,855,305	17.0	9.1	98,093	24,328	137	1.8
Charlotte, NC	512,628	44,130,627	33.4	18.9	81,917	21,460	121	2.4
Charlottesville, VA	38,223	2,572,394	30.7	29.7	67,300	16,513	93	2.4
Columbus, OH	670,234	26,773,223	22.6	18.0	39,946	17,739	100	3.0
Coral Gables, FL	43,288	5,026,046	17.1	13.4	116,107	31,854	179	3.2
Dallas, TX	1,083,500	60,178,612	13.5	10.0	55,541	21,325	120	4.2
Durham, NC	177,650	8,299,038	26.4	18.2	46,716	18,011	101	2.3
Fairfield, CT	53,740	6,425,259	10.4	8.3	119,562	37,245	209	2.2
Greensboro, NC	197,910	15,093,051	28.3	15.2	76,265	18,492	104	2.7
Germantown, TN	39,279	3,078,262	55.0	53.7	78,369	34,939	196	1.1
Greenwich, CT	57,973	20,678,942	7.6	(14.3)	356,700	51,111	287	1.5
Indianapolis, IN	751,557	27,312,472	44.0	35.2	36,341	18,626	105	2.7¶
Irving, TX	183,350	12,413,385	26.1	21.4	67,703	24,890	140	2.9
Lincoln, NE	217,537	9,140,641	35.3	33.4	42,019	21,017	118	2.0
Lower Merion, PA	58,596	7,268,572	37.2	35.7	128,429	49,071	276	1.3
Millburn, NJ	19,101	3,936,078	27.0	15.2	206,067	51,668	290	5.6¶
Minneapolis, MN	351,731	22,056,004	13.6	13.1	46,725	18,486	104	2.6
Naperville, IL	134,700	10,007,986	55.0	52.7	74,298	31,795	179	2.6
Northbrook, IL	35,000	4,439,820	74.4	74.3	126,852	41,503	233	2.3
Norwalk, CT	78,064	8,800,000	8.7	7.1	111,198	32,935	185	2.6
Omaha, NE	373,361	18,228,000	9.3	1.7	48,821	22,167	125	2.7
Overland Park, KS	144,520	11,225,342	32.2	27.2	77,673	28,129	156	2.0

Quantitative factors consist of numbers and ratios helpful for financial analysis. Qualitative factors provide depth, perspective, and context. Together, they impart the entire picture of a municipality. Overland Park, Kan., has strong management; Millburn's extraordinary wealth levels offset its high debt burden; and Cambridge, Charlottesville, and Columbus host major universities but have lower per capita wealth levels consistent with large student populations.

Overall, Standard & Poor's 41 'AAA' rated municipalities, each unique, possess key factors that produce extremely strong capabilities to meet their debt obligations.

Winnie Fong contributed to this article.

Grouping the GO 'AAA' Rated Municipalities

To better understand the diversity within the 'AAA' category, analysis started with size and geography sub-groups.

Population reflects size:

- A small municipality has fewer than 50,000 residents;
- A medium-sized municipality's population ranges from 50,000-250,000; and
- A large municipality has more than 250,000 people.

These criteria break out into 12 small, 22 medium, and seven large entities.

The 'AAA' rated municipalities were also divided geographically, which resulted in four main regions:

- The Northeast (NE) grouping consists of Connecticut (7), Massachusetts (3 AAAs), New Jersey (3), and Pennsylvania (1);
- The Midwest (MW) group is Illinois (2), Indiana (1), Michigan (1), Minnesota (3), and Ohio (1);
- The West of the Mississippi (WoM) group contains California (2), Kansas (1), Nebraska (2), and Texas (3);
- The Southeast (SE) group includes Florida (2), Georgia (1), North Carolina (5), Tennessee (1), and Virginia (2).

This breakdown yielded eight in the Midwest, 14 in the Northeast, 11 in the Southeast, and eight in the West of Mississippi region.

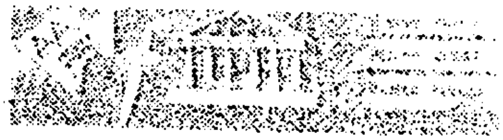
Karl Jacob 617-371-0306

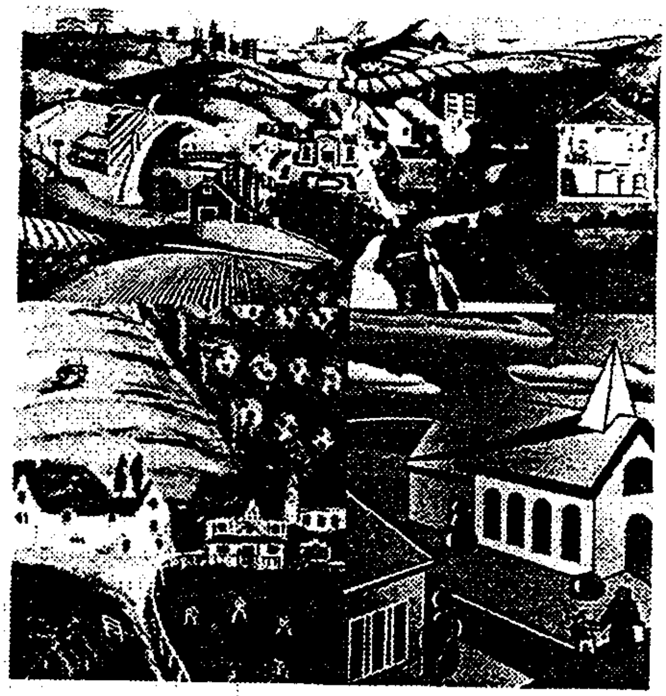
Table 3

Wealth Comparison of 'AAA' Rated Municipalities *(cont.)*

Municipality	Population	Total market value ($000)	Total gen. fund bal/expend (%)	Unres gen. fund bal/expend (%)	Mv/cap ($)	Pc EBI ($)	Pc EBI of us (%)	3-yr unemployment (%)
Palo Alto, CA	59,089	8,868,605	54.7	45.5	150,603	38,005	214	1.5
Plano, TX	232,000	14,970,714	18.3	13.7	64,529	27,865	157	1.9
Raleigh, NC	286,834	17,008,260	51.3	41.9	59,297	20,806	117	1.7
Ridgefield, CT	22,163	3,580,843	10.2	9.5	161,569	45,903	258	1.5
Ridgewood Village, NJ	24,577	2,906,154	29.1	19.1	118,247	34,646	195	2.6
Rochester, MN	82,019	3,954,648	43.7	43.2	48,216	20,319	116	2.0
Roswell,GA	75,000	5,418,190	127.8	108.6	72,243	28,005	156	1.4
Santa Monica, CA	94,220	11,335,026	120.1	49.7	120,304	28,237	159	3.9
Stamford, CT	110,689	12,033,234	4.0	1.1	108,712	36,784	207	2.5
Sudbury, MA	15,560	2,415,283	15.3	13.2	155,324	39,296	221	1.5
Summit, NJ	19,706	3,317,999	27.3	27.3	168,375	42,367	238	4.77§
Wellesley, MA	26,789	3,914,149	9.9	5.5	146,110	33,045	186	1.3
West Hartford, CT	60,110	5,536,626	5.4	5.1	92,108	30,898	174	2.5
Winston-Salem, NC	173,524	12,572,317	25.8	22.1	72,453	17,953	101	3.3
2001 Average	168,365	11,685,654	32.0	25.3	108,266	30,928	174	2.3
Median	82,019	8,868,605	27.0	19.1	92,108	29,116	164	2.3
1998 Average	187,484	10,796,171	26.2	21.3	86,213	25,518	163	3.5

— Most recent data. §County averages.





Annual Review of 'AAA' Rated Counties

A deep, diverse, and growing economy, strong financial management, and a low debt burden are the hallmarks of 'AAA' rated counties. This rating category, by definition, represents extremely strong capacity to pay principal and interest.

Karl Jacob, Boston 617-371-0306; **Geoffrey Buswick**, Boston 617-371-0313

Typically, 'AAA' rated counties have demonstrated an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies. Standard & Poor's currently rates 31 counties 'AAA', all of which have a stable outlook (*see Table*). The states with the most 'AAA' rated counties are North Carolina with five; Virginia with four; followed by, Maryland, New Jersey, and Texas, with three each. Additions to the 'AAA' list since our last review in April 2000 include the counties of Guilford, N.C., Tarrant, Texas, and New Castle, Del. Guilford and Tarrant counties were upgraded from 'AA+' to 'AAA', but New Castle, Del., received a double upgrade, from 'AA' to 'AAA'.

Economic Assessment

Areas of economic activity that affect credit quality include:

- Growth of the labor force,
- Diversification of employment sectors,
- Unemployment rates,
- Wealth and income indicators,
- Construction and retail activity,
- Population growth,
- Attraction of new businesses, and
- Tax base and employment expansion.

A key characteristic of 'AAA' counties is a track record of stability and resilience through all economic cycles. They have managed by creating reserves in periods of strong economic expansion to offset the effects of recessions and by anticipating and planning for their operating and capital needs into the future. A diverse revenue stream is one key to financial strength, because too much reliance on one kind of revenue source can make the county vulnerable to economic downturns. Equally important are expenditure trends. Although counties cannot always control all their costs, sound financial decisions can help maintain strong financial positions. Some counties have financial responsibility for social service programs—a very unpredictable part of the budget during an economic downturn, when caseloads grow. Social service programs also introduce the potential for costly unfunded mandates.

Highly rated counties have been able to control labor costs, limit the growth in programs and services, and take other measures, such as raising taxes or using reserves, to keep operations in structural balance despite economic pressures.

Management and Planning

Planning is often key to sound finances and manageable debt levels. Services provided by a county and its growing infrastructure need to be assessed with a long-term view, especially if the county is expanding rapidly. In setting user fees for water and sewer or solid waste operations, for example, the county has to balance its needs for future expansion and maintenance with the political reality of keeping rate increases reasonable and stable. Infrastructure requirements associated with solid waste, school facilities, sewer and roads, or other major services should be anticipated and made part of an achievable, long-term capital plan. Many of the 'AAA' rated counties have sophisticated financial planning procedures, both short- and long-term, that provide maximum flexibility to manage resources in any economic environment. Capital planning and, more recently, debt affordability models or guidelines that evaluate capital requirements and funding sources and assess the future impact of current bond programs are strong management tools. Governments that can solve problems before they become unmanageable or expensive are the most successful in achieving structural balance in their financial operations and in managing their debt and capital needs.

Ratios and Rankings

Standard & Poor's uses several ratios as part of the credit review process. Among them are overall net debt per capita, per capita market value, and unreserved general fund balance as a percentage of expenditures (*see Box*). A high overall net debt ratio is an indication of a heavy debt burden, which is theoretically borne in equal measure by each resident. In some cases, Standard & Poor's makes distinctions between direct debt, for which the issuer itself is responsible, and overlapping and underlying debt, which is not a direct obligation of the issuer. If the issuer's direct debt is low, less weight may be given to overlapping and underlying debt than will be the case if the issuer's own debt burden is high.

Sample of Financial Factors for County Evaluations

Overall net debt: Includes county net direct debt, plus underlying and/or overlapping debt.

GO debt: The amount of direct county general obligation debt outstanding.

Overall net debt per capita: Generally includes underlying and overlapping debt and indicates how heavy the debt burden is for residents expressed on a per capita basis.

Market value: The value of the county's total taxable property.

Overall net debt to market value: A ratio of the dollar value of debt to the value of the underlying tax base. This number provides insight into how heavy debt burden is on taxable property.

Per capita market value: Total market value divided by population.

General fund balance to expenditures: The annual dollar amount of reserves in a county's general fund as a percentage of general fund expenditures at the end of the fiscal year. A high level provides increased financial flexibility.

Per capita income as a percent of the U.S.: Measures county per capita income as a ratio of the nation's per capita income.

Unemployment rate: The county's average unemployment rate over the most recent 12-month period. It is an indication of economic strength.

Karl Jacob 617-371-0306

'AAA' Counties

County	Pop. (000s)	Mkt value (Mil. $)	Per capita mkt. value ($)	GF bal as % of expend.	Unres. GF bal as % of expend.	GO debt (Mil. $)	Overall debt as % mar. val.	Overall debt per capita ($)	Per capita inc. as % of US	3-yr unemp. rate (%)
Arlington, VA	175	22,140	117,702	6.7	N/A	458	1.7	2,107	166	1.5
Baltimore, MD	724	42,237	58,345	23.2	21.8	537	1.4	744	120	4.1
Chesterfield, VA	261	17,976	68,874	25.9	16.7	387	2.2	1,492	119	2.0
Cobb, GA	568	44,335	78,082	16.5	16.9	85	1.2	920	129	2.5
Dallas, TX	2,051	106,909	47,488	18.2	13.9	291	4.0	1,740	122	3.5
Du Page, IL	880	63,795	72,454	119.5	60.0	278	2.7	1,740	155	2.7
Durham, NC	204	13,372	65,516	22.5	14.0	209	2.5	1,614	103	2.0
Fairfax, VA	983	100,123	101,853	10.6	10.5	1,628	1.8	1,716	168	1.6
Forsyth, NC	294	18,922	67,755	16.5	11.7	216	1.5	1,020	103	2.5
Franklin, OH	1,079	62,616	58,206	54.3	38.5	176	3.4	1,980	111	2.5
Greenville, SC	359	19,354	53,911	59.9	56.7	91	1.2	627	94	2.0
Guilford, NC	391	30,350	80,618	22.5	12.4	77	1.2	802	101	2.6
Gwinnett, GA	501	31,395	62,687	49.4	48.3	85	1.7	1,031	117	2.4
Hennepin, MN	1,082	75,154	69,466	22.6	20.1	291	2.3	1,648	137	2.0
Henrico, VA	259	18,730	72,268	36.3	32.6	136	1.5	1,097	117	2.0
Howard, MD	247	20,801	84,214	36.5	20.5	433	2.5	2,075	144	2.1
Johnson, KS	451	35,949	79,761	20.3	19.3	147	2.7	2,166	148	2.3
Kent, MI	545	31,826	58,378	111.1	100.4	247	4.0	2,305	109	3.0
Mecklenburg, NC	661	62,801	88,596	22.7	13.6	1,223	3.6	3,216	122	2.2
Monmouth, NJ	624	47,235	75,735	17.7	1.2	214	2.8	2,046	126	3.9
Montgomery, MD	855	104,777	122,547	41.6	36.1	1,504	3.2	3,951	158	2.0
Morris, NJ	458	48,248	98,743	12.7	12.7	228	0.5	2,549	160	2.8
New Castle, DE	487	15,732	32,331	100.7	98.6	118	1.6	518	121	3.3
Oakland, MI	1,280	88,741	69,329	9.0	12.9	48	3.3	2,271	141	2.4
Salt Lake, UT	831	56,575	68,111	19.3	11.1	126	0.8	545	92	2.9
Somerset, NJ	290	28,493	98,230	27.3	11.5	139	2.3	2,242	182	2.5
St Louis, MO	1,009	15,810	61,480	(7.8)	27.5	252	4.5	698	133	2.7
Tarrant, TX	1,382	59,466	43,015	18.6	11.6	153	6.1	2,626	114	3.2
Travis, TX	727	49,843	68,696	20.8	18.5	368	4.7	3,246	123	2.5
Wake, NC	610	56,598	92,740	23.6	14.0	675	1.6	1,457	120	1.5
Westchester, NY	896	74,034	82,607	6.6	4.6	741	3.1	2,371	164	3.3
Average	683	47,279	74,185	31.8	26.3	373	2.5	1,760	129.4	2.5
Median	610	44,335	69,466	22.5	16.8	228	2.3	1,740	122.4	2.5

GF—General fund. Mar. val.—Market value. N/A—Not applicable.

Overall net debt per capita for the 31 'AAA' counties ranged from a high of $3,951 for Montgomery County, Md., to a low of $518 for New Castle County, Del. Average overall net debt per capita for the 31 counties is $1,760, and the median is $1,740.

Per capita market value measures property wealth. The county with the highest property wealth among the 'AAA' counties is Montgomery County, Md., at $122,547 per capita market value, followed by Arlington County, Va., at $117,702. Average per capita market value for the 'AAA' counties is $74,185, and the median is $69,466.

When examining a county's financial position Standard & Poor's also reviews reserves levels, both in terms of policies and trends. The unreserved general fund balance as a percentage of expenditures is examined to determine the size of reserves available in relation to the total budget. While Standard & Poor's does not advocate an ideal reserve level, our GO credit benchmarks outline that a total general fund balance in excess of 15% and an unreserved general fund balance in excess of 8% are very strong. However, each situation is considered on its own merits. The ratio for the 'AAA' counties for total general fund balance as a percentage of unreserved general fund expenditures ranges from a low of 1.2% for Monmouth County, NJ, to a high of 100.4% for Kent County, MI. The average unreserved general fund balance for the 'AAA' counties is 26.3% of expenditures, while the median is 16.8%.

Standard & Poor's examines several economic indicators to determine the vibrancy and strength of an entity's economy. Among the most important are income levels and unemployment rates. Standard & Poor's compares several income indicators to U.S. averages. Per capita income as a percentage of the U.S. average ranges from 92% for Salt Lake County, Utah, to 182% for Somerset County, N.J. On average, the 'AAA' counties' per capita income was 129% of the U.S. average, while the median was 122%. At first glance these income levels may appear more moderate than expected for highly rated credits, but given the large populations in many of the 'AAA' counties, wealth levels tend to be spread out and often understated. Unemployment rates for the counties are below the U.S. rates, and many are significantly below average. The lowest unemployment rate among the 'AAA' counties, on a three-year average, was 1.5% for both Wake County, N.C., and Arlington, Va.; the highest was 4.1% for Baltimore County, Md. The three-year average for the U.S. during the same period was 4.25%.

Regional Variations

When evaluating the distribution of 'AAA' rated counties nationally, the eastern region has a much stronger credit profile. More than two-thirds of the 'AAA' ratings are located in this region. The central region of the country accounts for 32%, while the western region has only one 'AAA' rated county. Many states in New England do not have a county government structure, so they are not part of the regional distribution. Maryland, North Carolina, and Virginia are all 'AAA' rated states, and 12 of the 31 counties are located here. There is a consistent level of financial conservatism, state oversight, and sound fiscal and debt policy that is shared between the state and local level of governments of these states—a credit strength. The eastern region of the country also has a very high concentration of higher education institutions, a strong federal government presence, and a very established corporate and industrial base, which provide a strong employment/income foundation as a contributing factor to many of the 'AAA' credit ratings in the region. While many of these economic characteristics are present in counties in the West, the local tax environment and other intergovernmental constraints contribute to a lower credit profile. Most eastern states have taxing flexibility, in contrast to some western region county governments, which operate under strict taxing limitations. In many cases, these can limit financial flexibility.

Conclusion

The various economic, financial, and debt ratios of 'AAA' counties do not represent an exhaustive list of considerations in the rating process. They do, however, represent some of the most important characteristics contributing to the coveted 'AAA' rating:

- Strong administration,
- Manageable debt levels,
- Strong economics, and
- Financial flexibility.

While each of Standard & Poor's 31 'AAA' rated counties is unique, they all possess these key factors, giving the counties extremely strong capabilities to meet their debt obligations.

Winnie B. Fong contributed to this article.